

Message Text

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47

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 INR-07 NSAE-00 COME-00

DODE-00 FRB-01 NSC-05 OMB-01 TRSE-00 XMB-04 EB-07

SS-15 SP-02 STR-04 AGR-10 (ISO) W

----- 127654

R 061812Z JAN 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 9941

INFO AMEMBASSY GUATEMALA

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY PANAMA

UNCLAS SECTION 1 OF 2 SAN SALVADOR 0034

GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: EFIN, ES

SUBJECT: BALANCE OF PAYMENTS: EL SALVADOR

REF: STATE 275435, SAN SALVADOR 3747

1. THE FOLLOWING TABLE IS AN UP-DATE OF B/P INFORMATION SUBMITTED
IN REF 2. THE 1975 FIGURES ARE LATEST CENTRAL RESERVE BANK PROJECT-
TIONS.

THOSE FOR 1976 ARE EMBASSY PROJECTIONS. 1974 DATA PROVIDED REF 2 ARE
STILL VALID.

BALANCE OF PAYMENTS

(MILLIONS OF COLONES)

(ONE COLON EQUALS U.S. DOLLAR 0.40)

CURRENT ACCOUNT	1975 (A)	1976(B)
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EXPORTS	1306.4	1495
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(COFFEE)	(459.4)	(715.5)
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(SUGAR)	(204.3)	(142.5)
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(COTTON)	(202.0)	(151.8)
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IMPORTS) 1531.9 1915.0
(PETROLEUM) (125.0) (130.0) (C)
(FOOD GRAINS) (18.0) (D) (19.0) (D)
NET SERVICES SD MINUS 138.0 MINUS 150.0
NET TRANSFERS 51.0 55.0
CURRENT ACCOUNT MINUS 312.5 MINUS 515.0
BALANCE
CAPITAL ACCOUNT 397.4 475.0(E)
OFFICIAL CAPITAL (178.6)
PRIVATE CAPITAL (218.8)
CHANGES IN INTERNATIONAL ASSETS AND LIABILITIES
OF BANKS 10.4
CHANGE IN INTERNATIONAL 95.3 MINUS 40.0
RESERVES (F)

NOTES:

(A) CENTRAL RESERVE BANK PROJECTIONS, UNLESS OTHERWISE NOTED

(B) EMBASSY PROJECTION. SEE DISCUSSION BELOW.

(C) PRIVATE SOURCE.

(D) EMBASSY ESTIMATE.

(E) CONAPLAN ESTIMATE ADJUSTED DOWNWARD BY EMBASSY. SINCE
BREAKDOWN IS NOT DIRECTLY COMPARABLE WITH BCR FIGURES
GIVEN FOR 1974, ONLY TOTAL FIGURE IS GIVEN.

(F) SIGN CONVENTION USED REF 2. HAS BEEN DROPPED

2. ASSUMPTIONS. DATA FOR 1975 ARE MOST RECENT UNPUBLISHED PCR
PROJECTIONS. THEY SHOULD BE FAIRLY CLOSE TO MARK. IF
ANYTHING, WE BELIEVE SUBSEQUENT ADJUSTMENT OF THESE FIGURES
MAY SHOW LOWER IMPORTS, SMALLER CURRENT ACCOUNT DEFICIT AND
LARGER INCREASE IN NET RESERVES.

3. 1976 EXPORT ESTIMATES DEVELOPED AS FOLLOWS:

(A) COFFEE: 3.577 MILLION QQ. AT DOLLARS 80 QQ

(B) COTTON: 1.350 MILLION QQ AT DOLLARS 45 QQ

(C) SUGAR: 3.565 MILLION QQ AT DOLLARS 16 QQ

(D) SHRIMP: PROJECTED TO BE THE SAME AS 1974.

(E) EXPORTS TO CENTRAL AMERICAN COMMON MARKET WILL EXPAND
AT A RATE OF 10 PERCENT OVER 1975. EXPORTS TO CACM COUNTRIES
ACTUALLY DECLINED IN 1975, BUT ARE EXPECTED TO RECOVER
IN 1976 AS CENTRAL AMERICAN ECONOMIES COME OUT OF RECESSION.

(F) OTHER EXPORTS WILL INCREASE AT A RATE OF 15 PERCENT. THIS
RELATIVELY HIGH RATE IS FORESEEN AS DUE TO WORLD
RECOVERY FROM RECESSION. PRICE INCREASES, THE EFFECT
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OF USGSP ON SALVADORAN EXPORTS TO THE US AND
INCREASING EFFECTIVENESS OF GOES EXPORT PROMOTION
EFFORTS.

4. 1976 IMPORT ESTIMATES ARE BASED ON ASSUMPTION IMPORTS WILL
INCREASE AT RATE OF 25 PERCENT OVER 1975. IMPORT GROWTH IN 1975 WAS
LOWER THAN USUAL FOR A NUMBER OF REASONS, DISCUSSED BELOW. THESE
WILL NOT RECUR IN 1976 AND, AS THE ECONOMY RECOVERS AND GOES
CONTINUES TO IMPLEMENT LARGE DEVELOPMENT PROJECTS, IMPORTS WILL

INCREASE AT A RATE CLOSER TO THAT EXPERIENCED IN 1973 AND 1974.
5. 1976 CAPITAL ACCOUNT ESTIMATE IS BASED ON A CONAPLAN ESTIMATE
OF CAPITAL INFLOW REVISED DOWNWARD BY THE EMBASSY BASED ON 1975
EXPERIENCE.
CAMPBELL

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 INR-07 NSAE-00 COME-00

DODE-00 FRB-01 NSC-05 OMB-01 TRSE-00 XMB-04 EB-07

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R 061812Z JAN 76
FM AMEMBASSY SAN SALVADOR
TO SECSTATE WASHDC 9942
INFO AMEMBASSY GUATEMALA
AMEMBASSY TEGUCIGALPA
AMEMBASSY MANAGUA
AMEMBASSY SAN JOSE
AMEMBASSY PANAMA

UNCLAS SECTION 2 OF 2 SAN SALVADOR 0034

6 EL SALVADOR HAS DONE BETTER ON EXTERNAL ACCOUNT THAN ANTI-
CIPATED EARLIER LAST YEAR. IMPORTS WERE LOWER THAN ANTICIPATED
WHILE CAPITAL INFLOWS, PARTICULARLY IN THE "PRIVATE CAPITAL"
CATEGORY (WHICH INCLUDES LOANS TO GOES AUTONOMOUS
AGENCIES AS WELL AS PRIVATE DIRECT INVESTMENT AND LOANS) WERE
LARGER THAN ANTICIPATED. THE RESULT IS AN ANTICIPATED LARGE
INCREASE IN NET INTERNATIONAL RESERVES. IMPORT GROWTH IN CURRENT
PRICES IS PROJECTED TO SLOW TO 8.7 PERCENT DURING 1975, WHICH
REPRESENTS NEGATIVE GROWTH IN REAL TERMS. FACTORS INVOLVED IN
THIS SLOW-DOWN ARE A CREDIT SQUEEZE APPLIED BY MONETARY AUTHORITIES
EARLY IN THE YEAR, A LARGE OVERHANG OF INVENTORIES
ACCUMULATED DURING 1974 AS A HEDGE AGAINST INFLATION, DECREASED
DEMAND FOR IMPORTED INDUSTRIAL INPUTS BECAUSE OF THE IMPACT OF
RECESSION IN THE US AND CENTRAL AMERICA ON LOCAL INDUSTRIES,
DECREASED PURCHASING POWER, AND FINALLY, THE EFFECT OF MEASURES
ADOPTED IN MID-1974 TO CURB IMPORTATION OF CONSUMER GOODS.

7. EXPORT PERFORMANCE WAS DISAPPOINTING, SHOWING ONLY 1 PERCENT GROWTH OVER 1974 IN CURRENT PRICES. THIS WAS PRIMARILY THE RESULT OF TWO FACTORS: POOR RESULTS IN COFFEE AND A DECLINE IN EXPORTS TO CENTRAL AMERICAN COUNTRIES. COFFEE EXPORTS WERE DOWN FROM LAST YEAR BECAUSE OF LOW PRICES DURING THE FIRST HALF AND A UNCLASSIFIED

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CONSERVATIVE EXPORT POLICY AFTER THE BRAZILIAN FROST HAD RAISED PRICES. EL SALVADOR'S EXPORTS TO CENTRAL AMERICAN COUNTRIES IN 1975 SHOWED AN ACTUAL DECLINE OF 5.3 PERCENT (COLONES 355 MILLION VS COLONES 375 MILLION IN 1974). POSSIBLE FACTORS IN THE LATTER DEVELOPMENT WERE SUGGESTED IN REF 2.

8. ON CAPITAL ACCOUNT, DETAILS BEYOND THOSE REPORTED REF. 2 ARE NOT AVAILABLE AT THIS TIME.

9. ADJUSTMENT POLICIES. GOES IS COMMITTED TO SUSTAINING ECONOMIC GROWTH AND SEES SHORT-TERM CURRENT ACCOUNT DEFICITS AS A BEARABLE COST OF THIS POLICY. IT IS CONFIDENT SUFFICIENT EXTERNAL FINANCING CAN BE FOUND TO COVER FOREIGN EXCHANGE GAP. IN MID-1974, GOES ADOPTED 100 PERCENT PRIOR DEPOSIT REQUIREMENT FOR CONSUMER GOOD IMPORTS WHICH HAS HAD SOME EFFECT IN REDUCING IMPORTS OF CONSUMER DURABLES. PROBABLY MORE IMPORTANT IN REDUCING IMPORTS WAS A SHARP CONTRACTION IN THE SUPPLY OF CREDIT BEGINNING EARLY IN 1975. AS OF AUGUST THE TOTAL SUPPLY OF BANK CREDIT WAS SMALLER IN NOMINAL TERMS THAN AT THE BEGINNING OF THE YEAR.

10. BCR ESTIMATES 16 PERCENT GROWTH IN GDP IN CURRENT PRICES OVER 1974, WHICH GIVES A FIGURE FOR GDP AT CURRENT PRICES OF 4,569 MILLION COLONES (US DOLLARS 1,827.6 MILLION). BCR USES 10.6 PERCENT DEFLATOR TO ARRIVE AT 5.4 PERCENT REAL GROWTH FOR 1975. BCR FIGURE FOR GDP AT CURRENT PRICES IN 1974 IS 3938.9 MILLION COLONES. IN EMBASSY VIEW, DEFLATOR IS TOO LOW AND ONE IN NEIGHBORHOOD OF 12-13 PERCENT WOULD BE CLOSER TO MARK, YIELDING REAL GDP GROWTH OF 3-4 PERCENT ON YEAR. OUTLOOK FOR 1976, IN EMBASSY VIEW, IS FOR SOMEWHAT HIGHER RATE OF REAL GROWTH, IN AREA OF 4 PERCENT. CAMPBELL

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